

# FORT CARSON HOUSING PRIVATIZATION

*An update on the Army's largest in-construction privatization effort shows the project well underway with bright prospects for the future.*

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**T**he word “privatization” has increased in significance in the housing community. The continued aging of the existing family housing stock, inadequate funding of maintenance programs, and increase in percentage of married service members with children have negatively impacted the traditional military family housing program. Development of another tool became more than essential—it was critical. One of these innovative ideas allows private industry to assist in solving the housing crisis to immediately and positively impact the quality and quantity of housing communities available to our service members and their families.

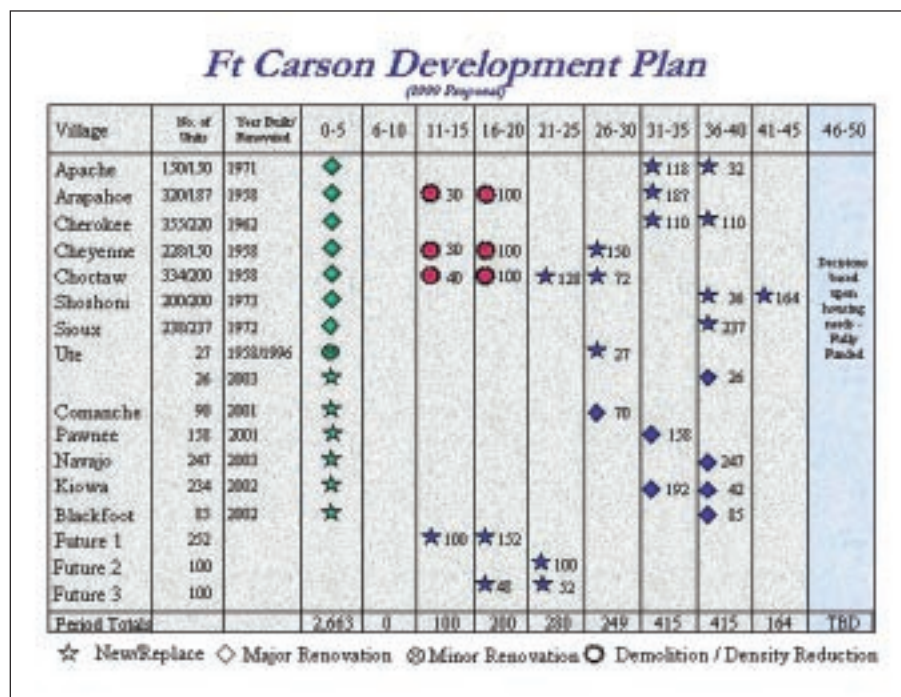
Privatization can quickly bring leveraged capital and development expertise to increase or improve military housing communities. The newness of the program and an inability to determine any secondary impacts of privatization on the traditional military housing program have slowed the process to a crawl. The award of several projects of various size and scope, including the Fort Carson Housing Privatization Project, is beginning to increase the understanding of the details and impacts of privatization and



should help move the program forward. The purpose of this article is to discuss some of the details of this project in the hope of increasing understanding, as well as to seek input on how to overcome some of the obstacles.

Fort Carson Family Housing L.L.C. (a limited liability company of the J.A. Jones' development arm, Regent Partners, Inc.) has been executing the Army's first privatization project at Fort Carson, Colorado, for the past year and a half. Together with the Fort Carson Army staff, we have taken great strides in improving the quality and quantity of communities available to the soldiers and families assigned to Fort Carson. Interest continues to grow in our project as numerous other DoD locations assess the value of the program and seek information on how it all works.

**FIGURE 1: Simplified Privatization Financial Model**



## Establishing a Standard

For this project, the Fort Carson staff spent a significant amount of time and effort evaluating the current condition of existing units. The result was a well thought out statement of expectations for the privatization effort. It also became the basis of their Request for Proposal (RFP). They did not mandate use of detailed military specifications. They instead established a standard that all bidders had to reach. Examples included the required percentage of ADA units, mandatory renovation tasks (for example, completely renovated bathrooms), and minimum insulation R-values for walls and ceilings, etc. This enabled all bidders to start from a common set of minimums; however, everyone understood that the highly competitive bidding environment would result in a "best value" that was far above the minimums. The RFP provided the Fort Carson priorities and a framework on how they saw the project being structured.

Bidders were asked to respond to

this RFP in a coherent proposal responding to the Fort Carson expectations. Putting together a response, whether through Request for Qualification or Request for Proposal is relatively straightforward—balancing the desires for high-quality communities (with modern housing and amenities) against affordability. As we put together our proposal, it became clear that the cash flow of rents received from soldiers slated to live on the installation could be leveraged to achieve Army objectives and more, assuming prudent allocation of resources.

Rental revenue is the starting point from both the government's and the developer's point of view in a privatization project. Out of this rental revenue, operating expenses and debt service payments must be paid. At Fort Carson, our approach was to provide the most responsive O&M support at the most appropriate cost (a task made easier by in-house capability), thus making the largest amount of cash

flow available for debt service and, ultimately, available funds. This provided the most funding possible for the project, at inception and over the entire contract period. The amount of the debt was established based upon the concept design for the community site layouts and individual units, cost estimates by consultants and contractors, and typical development costs.

Since the procurement process was a competitive response to a request for proposal, we understood that, unlike typical government procurements where "Best Value" usually means the lowest-cost responsive bidder wins, in this procurement the highest score would probably win. We assessed high score to mean the most project value in terms of total project dollars spent during the initial five-year construction period and the most project value over the entire 50-year contract period. The competition included some of industry's best developers and builders. This caused us to drive fees and other expenses to the lowest possible